

SENATE JUDICIARY

EXHIBIT NO. 1

DATE 3/25/09

FILE NO. HB235

HB235

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United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

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March 20, 2009

National Association of State Charity Officials
c/o Chris Cash, President
Charities Program Manager
Colorado Secretary of State's Office
1700 Broadway, Ste. 300
Denver, CO 80290

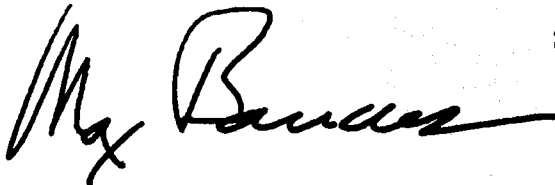
Dear Mr. Cash:

Thank you for your letter dated March 19 regarding "low-profit" limited liability corporation legislation. We are aware of this legislation and of its movement through a number of state legislatures. We are also aware that the legislation, while it amends state law in the various states, may have indirect implications for the federal rules governing private foundation program-related investments. The latter is an issue over which the Senate Finance Committee has jurisdiction.

As Chair and Ranking Member of the Senate Finance Committee, we are tasked with careful oversight of the tax code, including the rules governing tax-exempt organizations, and we take that duty seriously. In addition, we are committed to strengthening charities and philanthropy. However, we have not had any hearings on this particular matter and do not think that it is ripe for federal legislation. There are many other pressing issues before the Committee which demand our attention, and it is not clear when the Committee will take up consideration of this issue.

Please continue to keep us informed of your questions and concerns as well as the status of the legislation in the various states.

Sincerely,



Max Baucus
Chairman



Charles Grassley
Ranking Member

Attachment

**cc: The Honorable John Lewis
 The Honorable Dave Camp
 Emily Lam, Steve Frost, U.S. Treasury, Office of Tax Policy**

Nonprofits are increasingly launching business-like ventures to sustain themselves through the recession

Posted by [kquillen](#) March 22, 2009 07:00AM



Louisiana Children's Museum

Ana Zorrilla envisions building a training and performance arena inside the Louisiana Society for the Prevention of Cruelty to Animals headquarters where pets could take obedience classes and train for agility competitions. She is also developing plans for a retail store and a second pet day-care and boarding facility at the remodeled building.

The proposal Zorrilla is crafting would give the nonprofit organization another source of income at a time when the nation's economic troubles have caused donors to pull back on giving. The SPCA is among a growing number of local nonprofits preparing to launch business-like ventures to sustain themselves through the recession.

"We need to be in a position where we can be strategic and have a steady stream of income," Zorrilla said. "We're preparing ourselves for what's ahead because we don't think the worst has happened yet."

The practice of generating income is not new to the nonprofit world. Perhaps most famously, Girl Scouts of the USA sells cookies to raise money for the programs it operates for young girls. But current economic forces and the continued growth in the number of nonprofit organizations has meant more competition for the dollars that flow from donors. That, in turn, means that nonprofit organizations have to find new ways to generate money.

"The environment for funding is getting more competitive. There is less money and more nonprofits," said Alysia Fullen, a senior consultant for Community Wealth Ventures, a Washington, D.C., program that assists nonprofits in launching earned-income ventures. "As a nonprofit leader, you want to have different sources of revenue so that if one foundation ceases to exist, it won't disrupt your work."

Seven metro area nonprofits, including the SPCA, have been working with Community Wealth Ventures over the past six months to write business plans for ventures that will increase their financial self-sufficiency. Those plans will be presented to a panel of business experts Wednesday at the office of the

Greater New Orleans Foundation, which has co-sponsored the business plan program.

Money is tight

At the Good Work Network, which relies on grants from Louisiana Economic Development and the Department of Health and Human Services to offer free business assistance to minority- and women-owned small businesses, grant money is often not enough to cover expenses.

Seemingly trivial costs, like refreshments for seminars, are not covered by the grants, said Phyllis Cassidy, the organization's executive director. That puts a strain on the 11-member staff to come up with ways to pay for such incidentals or provide fewer services to its audience.

"A lot of grants won't pay for a lot of expenses that we incur," Cassidy said. "And foundations will typically support you for a period of time and then not anymore. So there is a need for a steady source of income that you can count on that's more discretionary."

Money is also tight at the SPCA, which was flooded with donations after Katrina, only to see them dry up as the nation's economic climate worsened and out-of-state donors cut back. The downturn also took a chunk out of the organization's endowment, another source of income. Meanwhile, the agency's contract with the city, which makes up about 60 percent of its organizational budget, lasts only through November.

"Like everybody else we are looking at how we generate funds," Zorrilla said. "We're looking at our long-term sustainability."

Not all local nonprofits are new to entrepreneurship. The Louisiana Children's Museum has long operated a store. But the shop generated only about 5 percent of the museum's income before Katrina, said Julia Bland, the museum's executive director. She would like to see the store become a greater contributor to the museum's operating budget.

The store, Bland said, will begin operating more as a shop that sells educational material for children than as the quirky museum gift store it has been.

"We've always considered it a business within a business," Bland said. "But we have an overall culture of improvement. It seemed as though we could take this part of our business and make it better."

Acting like businesses

But for organizations like Operation REACH, which provides educational programs for youths, this will be the first experience with creating an internal funding mechanism. Operation REACH is crafting an ambitious program called the Gulf South Youth Biodiesel Project that would employ young people to collect discarded cooking oil from restaurants, industrial cafeterias and perhaps cruise ships, convert it into biodiesel fuel and sell it to distributors. The plan is still in its early stages, but the nonprofit believes it has the potential to generate \$400,000 a year.

"Given the economy, it's more important than ever to have alternative sources (of income) and not have to go looking for fund-raisers," said Hamilton Simons-Jones, chief development officer for Operation REACH.

Cassidy, of the Good Work Network, also believes that adding a business component will help the organization build on its mission to grow minority- and women-owned businesses. The nonprofit is

renovating a building on Oretha Castle Haley Boulevard that will be used as an incubator for new businesses. A portion of the building will be leased as retail space to three businesses that have previously used its services.

But Cassidy said it would be a mistake to believe that the Good Work Network would become completely self-sustaining once its new tenants are in place. The organization hopes to generate 30 percent of its own income, up from 5 percent now.

"Sixty-eight percent of our clients are low-income, so we will never be able to sustain our income 100 percent and serve that population because they simply can't afford to pay," Cassidy said. "But I also think it's important that not-for-profits start to act like businesses."

State trying to help, too

The state's Office of Social Entrepreneurship is also looking at ways to make nonprofits and their business enterprises more successful.

"We are really trying to address the whole ecosystem," said Nadiyah Morris-Coleman, manager of the social entrepreneurship office, which is within Lt. Gov. Mitch Landrieu's office.

Morris-Coleman said the state is considering changing its policy to allow nonprofits and social enterprises to register as L3C firms, which are considered hybrids of nonprofit and for-profit organizations. L3C firms are considered "low profit" ventures and pay some taxes. They are designed to attract private investment to ventures that provide social benefit. So far, three states have adopted similar legislation.

To retain their tax exemption, nonprofits looking to generate income must operate a business related to their core mission. Profits generated from unrelated business ventures can be taxed, just as those of for-profit ventures are.

"We haven't made up our mind, but it's something we're open to," Morris-Coleman said.

The state is also considering a public-private social innovation fund that would use a combination of venture capital investment and state money to invest in nonprofits and other social enterprises.

Morris-Coleman said her office is mainly concerned that such ventures maintain their investment in the greater good even as they look for new ways to make money.

"It makes no sense if they have a great earned income but they're still not benefiting society in the best way possible," Morris-Coleman said. "We want to make sure that we have a return on investment on the social side."

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Categories:

Comments

calmdown504 says...

Wow, the business section of TP has recently been on point!!! I love it!

The REACH non profit's idea sounds fantastic, and I would love to see the new franz building after GWN renovates it. Good luck.

Posted on 03/23/09 at 2:35AM

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